

Memorandum

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To: NADER ESHGHIPOUR
Deputy District Director
District 4
Division of Maintenance and Operations

Date: June 23, 2010

File: P3030-0644

ORIGINAL SIGNED BY:

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: District 4 Maintenance Office Review

Attached for your information is Audits and Investigations' (A&I) final report for the District 4 Maintenance Office Review. This report was performed as a management service for your consideration in the oversight role of the Maintenance and Operations Unit. As a matter of public record, the report will be included on the Reporting Transparency in Government Web site.

We thank you and your staff for their assistance provided during our review. A&I's review is an independent internal review intended to provide you with feedback for your management's consideration.

If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: Bijan Sartipi, District Director, District 4
Cynthia Stratton, Deputy District Director, District 4
Basem Muallem, Interim Chief, Division of Maintenance
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
Kevin Yee, Audit Supervisor, Audits and Investigations

P3030-0644
District 4 Maintenance Review
June 2010

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

DISTRICT 4 - MAINTENANCE REVIEW

SUMMARY

Audits and Investigations (A&I) has completed a maintenance review of District 4. District 4 Maintenance (District) consists of six regions: North Bay, South/West Bay, East Bay, Delta, Specialty, and Toll Bridge & Structural Steel Paint. We selected the South/West Bay and East Bay Regions for review. The purpose of the review was to assess whether accounting and administrative procedures were being followed, fiscal data was entered properly into the applicable system, and that proper measures were in effect to safeguard the California Department of Transportation's (Department) assets. The review was performed as a management service for consideration in your oversight role of the maintenance and operations unit.

Our review of the accounting records and control procedures was based on the District's compliance with the Department's Accounting Manual, State Administrative Manual (SAM), and departmental policies and procedures. The scope of our review covered personnel time and payroll records, overtime and warrant distribution procedures, purchase orders, CAL-Card, damage reports, Home Storage Permits, and other records and tests as deemed necessary.

Our review disclosed that the accounting records and control procedures followed by the District's Maintenance and Operations Unit were generally in compliance with the Department's Accounting Manual, SAM, and departmental policies and procedures, except as follows:

- Weaknesses in Controls Over Chemical Inventory.
- Weaknesses in Controls Over Bulk Fuel Inventory.
- Deficiencies in CAL-Card Processing.
- Inadequate Recordkeeping and Review of Home Storage Permits Files.
- Unsupported Use of State-Owned Vehicles.
- Weaknesses in Payroll Processing.
- Noncompliance with Employee Attendance and Leave Record Requirements.
- Accident Logs Not Validated or Validated Untimely.

OBJECTIVES

The objectives of the maintenance review were to assess whether accounting and administrative controls were being followed, fiscal data was entered properly into the applicable system, and proper measures were in effect to safeguard the Department's assets.

SCOPE AND METHODOLOGY

The scope of our review included personnel time and payroll records, overtime and warrant distribution procedures, purchases, damage reports, and other records and tests as deemed necessary. Our review did not include a review of cookhouses and bunkhouses, as none exist in

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this District. Our methodology consisted of interviewing personnel, reviewing records, and performing other analytical procedures and tests as we considered necessary.

The period of the review focused on District transactions and operations from July 1, 2008, through January 31, 2009.

RESULTS

The maintenance review disclosed that the District's Maintenance and Operations Unit followed accounting and administrative procedures, entered fiscal data properly into the applicable system, and took proper measures to safeguard the Department's assets. However, we identified the following deficiencies where internal controls can be improved:

- Weaknesses in Controls Over Chemical Inventory.
- Weaknesses in Controls Over Bulk Fuel Inventory.
- Deficiencies in CAL-Card Processing.
- Inadequate Recordkeeping and Review of Home Storage Permits Files.
- Unsupported Use of State-Owned Vehicles.
- Weaknesses in Payroll Processing.
- Noncompliance with Employee Attendance and Leave Record Requirements.
- Accident Logs Not Validated or Validated Untimely.

For further information, please see the Attachment, District 4 Maintenance Review.

We hope this review proves useful in your oversight role of the District 4 Maintenance and Operations Unit. If you have any questions, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107.

ORIGINAL SIGNED BY:

GERALD A. LONG
Deputy Director
Audits and Investigations

April 29, 2009
(Last Day of Field Work)

Attachment

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Audit Team:

Laurine Bohamera, Chief, Internal Audits

Kevin Yee, Audit Supervisor

David Wong, Auditor

Kathy Brooks, Auditor

ATTACHMENT

DISTRICT 4 - MAINTENANCE REVIEW

1. Weaknesses in Controls over Chemicals Inventory

Background:

The respective Department of Transportation's (Department) maintenance yard staffs are responsible for monitoring and controlling the use of chemicals stored at their facilities. Controlling the use of chemicals, for which they are responsible, requires physical inventories. District 4 tracks all chemical inventories using the Integrated Maintenance Management System (IMMS). Chemical inventory is tracked by cost centers within IMMS and safeguarded by each Maintenance Supervisor. The Roadside Vegetation Crew (RVC) Supervisor orders and receives chemicals for the Region. The chemical shipments are entered and tracked in the cost center of the RVC Supervisor until other crew supervisors need the chemicals. Then the chemicals are physically moved out of the RVC Supervisor's storage facility and transferred to the cost centers of the supervisors requesting them.

Issue:

Chemical inventories on hand for the South/West Bay Region RVC did not agree with what was recorded in the IMMS. In addition, periodic counts were not performed on the chemical inventory.

Caltrans Maintenance Manual, Volume II, Chapter 3 - Managing Materials & Supplies, Section 3.2, Roles & Responsibilities, states that it is the Maintenance Supervisor's responsibility to "Keep accurate records in the Parts system in IMMS, and charge materials accurately and timely on Work Orders," and that it is the Maintenance Area Superintendent's responsibility to "choose Parts to be cycle counted on a monthly basis" and "monitor and do adjustments as needed to keep their Supervisor's Part level correct."

The Maintenance Supervisor was new to the position and there was a lack of oversight by the Maintenance Area Superintendent.

Lack of good inventory procedures result in inaccurate inventory reports and increases the risk of loss.

Recommendation:

We recommend that the Maintenance Supervisor and Maintenance Area Superintendent perform monthly or periodic inventory counts together, and the Superintendent adjust the IMMS to reflect inventory on hand.

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2. Weaknesses in Controls over Bulk Fuel Inventory

Background:

District 4 Maintenance has bulk fuel sites throughout the District disbursing diesel and gasoline fuel for Department equipment. The District tracks fuel manually or electronically at various stages, including measuring the bulk fuel levels before and after fuel deliveries to ensure accuracy of deliveries. Employees dispensing bulk fuel will log their name, date, vehicle ID, fuel quantity, and pump meter on the Disbursement Record-Bulk Fuel Oil (DME-0045) form. A monthly Recapitulation of Bulk Fuel, Form FA-0095, is prepared for each fuel site to compare amounts. Variances over two percent should be investigated by the District.

Issue:

We reviewed the FA-0095 forms for four sites in the South/West Bay Region and three in the East Bay Region, and found that two of the locations had unexplained variances over the acceptable two percent level. In addition, we found that the FA-0095 form was not prepared at all for one tank because it was on the automated fuel system; and was prepared incorrectly for another tank because the fuel meter was broken. We also found that the Disbursement Record-Bulk Fuel Oil (DME-0045) was not submitted to Headquarters, Key Data Entry Unit for two sites.

The following criteria govern the management of bulk fuel:

- Caltrans Policy & Procedures Covering Bulk Fuel, PP 83-2, requires that overages/shortages exceeding the two percent allowable variance must be investigated and corrective action taken.
- Division of Equipment's Material Procedures, Exhibit 4.7:2.02, states that if you experience a two percent or greater variance and are sure all figures are correct, security is controlled and the pumps are working correctly, the reason for the variance could possibly be a temperature variance. If you feel this is the problem, note this on your monthly recapitulation form and monitor the progress.
- Division of Equipment's Material Procedures, Exhibit 4.7:2.03, states that "All fuel disbursed to equipment with an Equipment ID Number must be accounted for on Form DME 0045, Disbursement Record-Bulk Fuel and Oil. This form is submitted to the Headquarters Information Services, MS#20 Key Data Entry in Sacramento."
- State Administrative Manual (SAM) Section 20050 requires that State Entities establish and maintain internal controls to ensure the proper safeguarding of assets.

The District did not enforce Bulk Fuel variance procedures. Uninvestigated variances could indicate that assets are not properly safeguarded, and increases the risk that the District will not detect losses.

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Recommendation:

We recommend the District prepare monthly FA-0095 reports, investigate variances over two percent for all fuel tanks, whether on the automated or manual fuel system and explain these variances on the FA-0095 report. Also, the broken fuel meter should be repaired to enable the District to fully prepare the FA-0095. The FA-0095, along with the DME-0045, should be submitted to Headquarters.

3. Deficiencies in CAL-Card Processing

Background:

The CAL-Card Program is used widely throughout districts as an alternative means of procuring goods and services, with delegation of authority passed from the Division of Procurement and Contracts to the Approving Officials. The CAL-Card Handbook provides information and procedural requirements for the Department's Cardholders and Approving Officials.

Issue:

We reviewed nine Statement of Account (SOA) packages from eight Cardholders and tested 17 CAL-Card transactions and noted the following:

- Purchase Requests (PR) lacked the signature of the person receiving goods/services in 17 instances.
- Purchases were made prior to the preparation of the PR in 14 instances.
- Prohibited purchase of services over \$5,000 over a 12-month period was noted in one instance.
- Eight out of eight Cardholders did not prepare the Conflict of Interest Statement certification form.

The requirements governing CAL-Card include the following:

- CAL-Card Handbook (CCH) Section 3.7, and the Department's Procurement Acquisition Manual, Chapter 7.2.2 requires that a "date received" and a signature of the receiver be included on the purchase request form. In addition, the CCH Section 3.1 states, approval is necessary before making any purchase, and the approval must be documented in the procurement file.
- CCH Section 5.15 states that "Services that exceed \$5,000 by law require advertising in the California State Contracts Register (unless exempt by statute or State policy), competitive bidding, and a written contract...services that exceed \$5,000 in twelve (12) months, from any single vendor (for the same type of service), are otherwise prohibited."

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- CCH Section 1.17 states that all employees involved in purchasing or CAL-Card activities must read and abide by all provisions of the following documents:
 - Deputy Directive DD-09 Incompatible Activities and Conflict of Interest.
 - Article 8 of California Public Contract Code Sections 10140 and 10141.
 - California Government Code Section 1999.
- Each Cardholder and Approving Official must sign the Conflict of Interest form available at DPAC's intranet website. The signed copy must be kept on file in a central location at the CAL-Card Cardholder's district/division for at least five years following the most recent purchase made by the cardholder.

District personnel do not consistently enforce all of the requirements for completing purchase requests for CAL-Card purchases. As a result, the Department is at risk that unauthorized or unnecessary CAL-Card purchases will go undetected.

Recommendation:

We recommend that District 4 Maintenance management ensure compliance with the CAL-Card Handbook by:

- Ensuring the employee that receives the merchandise/service, date and sign the purchase request.
- Requiring the purchase request to be completed before the merchandise/service is received.
- Preparing a Conflict of Interest Certification for all employees involved in purchasing or CAL-Card activities and retaining copies in a central location for a period of five years.
- Not using CAL-Card to pay for services that will exceed \$5,000 over a twelve-month period.

4. Inadequate Recordkeeping and Review of Home Storage Permits Files

Background:

A Home Storage Permit (HSP) must be obtained when a State-owned vehicle is stored at an employee's home or in the immediate vicinity of the home for more than 72 nights over a 12-month period, or more than 36 nights over a 3-month period. The Personal Use of State Vehicle One-Way Commuting and/or Round Trip Form (PM-0041) must be filed with the Division of Accounting for employee benefit (income) purposes for State and federal tax reporting. The Division of Equipment (DofE) coordinates the statewide home storage permit program and provides forms and instructions upon request.

Issue:

We reviewed 12 HSP applications from the South/West Bay region for accuracy and completeness and noted the following:

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- Permit Numbers were not assigned on all 12 applications.
- Travel distances were not completed in five instances.
- PM-0041 forms were missing for seven of the HSPs and some of these forms had inaccurate calculations of Reportable Income.
- Daily vehicle mileage used was not consistently input into the Online Car Tag System for two of the six superintendents.

In addition, we noted that there was no District HSP Coordinator.

Deputy Directive DD-28-R2, Vehicle Home Storage Permits, requires employee and supervisors to follow the Vehicle Home Storage Permit Guidelines (VHSPG). These guidelines, dated June 2006, require:

- Documentation of personal use mileage and the filing of Form PM-0041.
- Vehicle mileage to be logged into the Online Car Tag System.

Furthermore, SAM Section 4107 - Travel Logs, requires a travel log be completed on all state-owned passenger mobile equipment except for motorcycles, trucks over 3/4 ton, and heavy equipment.

Neither Regional Office could identify a District HSP Coordinator and indicated that they are only responsible for maintaining file copies. The Regional Offices automatically issue HSPs to maintenance supervisors and superintendents, and automatically generate the renewals on a yearly basis. In addition, supervisors are not reviewing PM-0041s for accuracy and completion, and there are no district procedures in place requiring the use of State vehicles for HSP Program purposes be input electronically and reviewed.

As a result, HSPs could be issued to personnel when their job assignment does not necessitate the use of a State-owned vehicle, which provides an opportunity for misuse of limited State resources. The permit holder's personal financial benefit and lack of enforcement of the PM-0041 further increases the incentive for improper use of a HSP.

Recommendation:

The District Director should delegate the management of the HSP program to a District HSP Coordinator and notify all District/Regional staff. Furthermore, the District Director should work with the District HSP Coordinator to ensure that adequate HSP procedures are in place and that Regional staff are in compliance with related policies.

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5. Unsupported Use of State-Owned Vehicles

Background:

HSPs are required where, in use for State business, it is in the best interest of the State to allow an employee to park a State-owned or commercially leased motor vehicle in a secured location at or near the employee's home. Permits are issued for the following reasons:

- Incident and Emergency Response Preparedness.
- Construction and Construction Support.
- Operational Efficiency.

Issue:

Approved conditions for use of HSPs were not met for six of 12 HSP holders in the South/West Bay Region, and for two of the eight HSP holders in the East Bay Region. Specifically, there were no Logs of Emergency Trips (DM 0090) and the HSP either did not indicate the distances traveled, or distances traveled were unreasonably long/short.

The VHSPG, describe that, driving to or from an employee's home at the end or start of the employee's workday is an acceptable use of a State-owned vehicle providing one of the following conditions is met:

- Not practical to use another form of transportation.
- Employee's home is reasonably en route to or from the employee's headquarters.
- Employee will use vehicle to conduct State business on the same day or before employees' usual working hours on the following workday.
- No State garage (storage) facility is available.
- Employee is required to respond to urgent or emergency calls outside employees' regular work hours.
- Employee is required to work unplanned overtime.
- Employee uses vehicle for personal needs directly related to carrying out official business.

The lack of a District HSP Coordinator to review HSP records to ensure a justified/documented need for the permit may have contributed to the above observation.

When HSPs are issued to employees who do not have a justified or documented need, there is an increased risk of waste and abuse of limited resources and the Department's risk of negative exposure is increased.

Recommendation:

Once a District HSP Coordinator is appointed, he/she should work with Regional management to ensure that assigned regional staff have a justified need to have a HSP.

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6. Weaknesses in Payroll Processing

Background:

As part of the payroll processing and warrant distribution functions, the prior month's M-33s (timesheet from Staff Central) are sent by the timekeeper to the employees and supervisors for verification and signatures. One of the Regional office staff, who does not handle any part of payroll processing (timekeeping), picks up the warrants daily and returns to the Regional office. Warrants are distributed to the employee by their supervisor or picked-up at the Regional office by the employee/supervisor.

Issue:

The maintenance supervisors in both the East Bay and South/West Bay Regions can distribute employee salary warrants and sign the STD. 634-Absence and Additional Time Worked Report. Abuse of State time and money can occur when one person can process personnel records and handle payments. According to Regional management, they were unaware of the conflict of supervisory duties.

SAM Section 8580.1, states that persons designated to distribute salary warrants to employees or handle salary warrants will not be authorized to process or sign specific personnel documents such as the STD. 634.

Recommendation:

The District review the duties at least semiannually, or more often if necessary, to comply with this SAM Section 8580.1.

7. Noncompliance with Employee Attendance and Leave Record Requirements

Background:

Employees' leave usage is recorded into IMMS for maintenance employees and directly into Staff Central for managers, superintendents, and support staff. On a monthly basis, the Regional office (timekeeper) compares the State Controller's Office Leave Activity Balances Report to the M-33 for accuracy. The timekeeper and Personnel Services Specialist confer regarding any discrepancies in leave balances. The employees are provided a bi-monthly leave activity statement on their payroll warrants.

Issue:

We reviewed employee attendance records, salary payments, and leave records, and found the following:

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- One of four East Bay employees reviewed and enrolled in the Direct Deposit program were not currently eligible for direct deposit because their combined leave balances were under the 40 hour minimum.
- Employees timesheet and absence request leave used, did not agree with the Leave Benefit History Summary provided by Human Resources, for one of the nine South/West Bay employees reviewed.
- The timesheet/absence request forms were not certified by authorized personnel and lacked supervisor signature for one of the nine South/West Bay employees reviewed.

Employee attendance and leave record requirements are governed by the following:

- Caltrans Regional Administrative Officer (RAO) Manual, Section 3.06, describes that the Regional Office is responsible for verifying eligibility for direct deposit.
- SAM Section 8534 requires agencies to maintain sick leave and vacation records for each employee and an annual statement of leave will be prepared and given to each employee.
- SAM Section 8539 requires that agencies will maintain complete records of attendance and absences for each employee during each pay period and that these records will be properly certified.

The RAO maintains copies of the personnel records, but does not review the leave balances. In addition, the supervisor did not review the timesheet for that period.

A loss of State funds can occur if employees:

- Leave State service without enough leave to cover absences.
- Do not work their hours, and do not have adequate leave to cover the salary paid.

Recommendation:

The RAO Manual should be updated and refresher training provided to District Regional management emphasizing attendance record certification and leave balance charges, minimum balances, and accumulations.

8. Accident Logs not Validated or Validated Untimely

Background:

Dispatchers, supervisors or superintendents file Service Requests for traffic control and emergency calls, which report incidents of damage to State infrastructure. Damage to the State Highway System is recorded in the IMMS by supervisors or superintendents. When the responsible party is known, a Service Request, Accident Log, and Work Order(s) are created in IMMS. Once an accident number is assigned, the cost of the repair can be monitored. After all

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work orders are completed, the regional office validates the accident log for the Division of Accounting, Office Receivables, Systems and Administration, for billing the responsible party.

Issue:

The Damage Reporting process is not being tracked and/or accidents are not being validated timely to enable the Department to invoice the responsible accident party for damages. Our review of California Highway Patrol reports, which identified responsible accident parties between 2006 through 2008 for the South/West Bay Region, determined that 298 out of 401 accidents did not have the accident log validated.

In the East Bay Region, we noted that damage reports are not being validated timely. A judgmental review of 30 damage reports showed that 28 were validated over 90 days. Seven out of the 30 were validated over 600 days.

The Memorandum from Division of Accounting to Maintenance Regional Managers and Regional Administrative Officers, dated January 28, 2009, states that "Effective immediately, Accounting will inform incoming callers that documentation regarding an accident/or incident will not be available for 120 days from the date of the occurrence. Of the 120 days, 90 days are for Maintenance to repair the damage, finalize the costs, and validate the Accident Log; 30 days is for Accounting to invoice the driver and/or responsible party."

In addition, the Maintenance Manual, Section 1.12.3, Damage to State Highways, requires every effort be made to complete the Damage Reporting process within 90 days.

Damage Reporting was not a priority in the District. Also, the District improperly believed that Headquarters Accounting has three years from accident date to invoice responsible parties.

If the Damage Reporting process is not followed, valuable funds that were intended for highway maintenance could be lost. In addition, untimely validation of Accident Logs delays the collection process and reduces the likelihood of recovery from responsible parties due to the statute of limitations. This limits the Department's ability to recover revenues that would offset the damage repair costs incurred as a result of damage to the State Highway system.

Recommendation:

We recommend that District 4 Maintenance & Operations management:

- Follow the process in the IMMS Damage Reporting Guidelines when the responsible party is known.
- Ensure that Damage Claim Accident logs are validated within 90 days of the Service Request date in order to maximize the Department's recovery rate of incurred damage costs.